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NEWS RELEASE

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PSC Adjusts Big Rivers Electric Corp. Wholesale Rates *Smaller-than-requested increase will be passed on by distribution coops*

FRANKFORT, Ky. (Nov. 17, 2011) – The Kentucky Public Service Commission (PSC) has authorized Big Rivers Electric Corp. to adjust its wholesale rates in order to increase annual revenue by approximately \$26.75 million, or about 6 percent.

In orders issued today, the PSC also approved pass-through rate increases for the three electric distribution cooperatives that purchase power from Big Rivers – Jackson Purchase Energy Cooperative, Kenergy Corp. and Meade County Rural Electric Cooperative Corp.

In addition, the PSC ordered several changes to the way in which Big Rivers proposed to allocate revenues among various customer classes. The net effect was to reduce the extent to which large industrial customers subsidize service to residential and small commercial customers.

On average, residential customers will see monthly bills increase by about \$6 per month, but the actual size of any increase will vary depending on which distribution cooperative serves that customer and on individual usage patterns.

Big Rivers had applied to increase annual revenue by \$39.93 million. As allowed under Kentucky law, Big Rivers and the three distribution cooperatives put their proposed rates into effect on Sept. 1 and began billing at the higher rates.

Customers of Big Rivers and the distribution cooperatives will receive refunds, with interest, of the difference between what they paid under the proposed rates and the rates approved by the PSC, which were ordered effective as of September 1, 2011.

Big Rivers is owned by the three distribution cooperatives to which it provides power. Together, the three cooperatives serve about 112,000 customers in 26 counties in western Kentucky. The customers include about 20 large industrial facilities, notably two aluminum smelters that together use about 65 percent of the power generated by Big Rivers and provide 70 percent of its annual revenue.

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The PSC conducted a hearing in the case on July 26, 27 and 28. Other parties to the proceeding were the Kentucky Office of Attorney General, the Kentucky Industrial Utility Customers, Inc. (KIUC), Jackson Purchase Energy and Kenergy.

This is the first rate case for Big Rivers since the PSC's March 2009 approval of the "unwind" agreement that terminated the lease under which E.ON U.S. operated electric generating plants owned or controlled by the cooperative.

At the time of the unwind, Big Rivers said it anticipated that it would not file for a rate adjustment until 2016. However, revenue from off-system sales of electricity has been lower than projected, prompting the need for a rate increase, Big Rivers said in its application.

The unwind created a complex rate structure for Big Rivers. It includes a separate assessment on the smelters and two funds that provide rate offsets for non-smelter customers.

One of the goals of the unwind was to provide a measure of rate stability that could enable the two smelters – Rio Tinto-Alcan in Sebree and Century Aluminum in Hawesville – to stay in business. When operating at capacity, the smelters employ about 1,400 people, expend \$115 million annually in payroll and benefits and support another 3,500 jobs in the region.

The cost of power accounts for about one-third of the smelters' operating expenses, making them "highly sensitive to increases in the price of electricity," the PSC noted in its order. Therefore, the rates charged to the smelters were a central issue in the case.

But the economic viability of the smelters ultimately rests on the price of aluminum, which is determined by conditions in the global market and which is entirely beyond the PSC's influence, the PSC said.

While saying that it is "highly sympathetic to the smelters' concerns about their continued viability and competitiveness," the PSC stated in the order that it has limited authority to address those concerns.

The PSC made several adjustments that lowered the rates requested by Big Rivers. The largest included:

- Rejecting an adjustment proposed by Big Rivers related to an assessment on the smelters, thus reducing the revenue increase by \$7.1 million.
- Reducing projected operations and maintenance expenses by \$1.4 million.
- Disallowing nearly \$2.8 million in annual depreciation expenses.

The PSC also made changes to the way revenue is allocated among customer classes. Of the \$26.75 million annual revenue increase, the smelters will pay almost \$14.2 million, other large industrial customers will pay nearly \$2 million, and residential and small commercial customers will pay \$10.6 million.

Big Rivers had proposed that the smelters pay \$22.5 million more per year, other large industrial customers pay \$3.3 million more and residential and small commercial customers pay \$14.2 million more.

KIUC, which represented the smelters in the case, had proposed a \$227,000 annual increase for the smelters, \$34,000 for the other large industrial customers and \$18.4 million for residential and commercial customers – a rate structure it said would reflect the actual cost of serving each customer class and end the subsidization of small customers by large users.

Rates that accurately reflect the cost of service are “a goal to be achieved gradually, in incremental steps,” the PSC said in its order. The new rates both reflect the long-standing practice of gradual adjustment and reduce the subsidy by more than the amount proposed by Big Rivers, the PSC said.

Today’s orders and other documents in the case, as well as videos of the hearing, are available on the PSC website, psc.ky.gov. The case numbers are 2011-00036 (Big Rivers), 2011-00035 (Kenergy), 2011-00038 (Meade County) and 2011-00057 (Jackson Purchase).

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.